



**SAMPLE GAAP CITY**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2004**

Office of

**AUDITOR  
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA**  
**Auditor of State**







## OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of governmental subdivisions should be performed in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal control and testing of transactions for compliance.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the local government feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

We have included as attachments to this letter some information related to municipal utility audits. We have also included illustrations of note disclosure for a city's participation in the Municipal Fire and Police Retirement System of Iowa (note X) and Iowa Community Assurance Pool (ICAP), a local government risk pool (note Y).

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the City's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac> or by calling 1-800-253-0696 (Form number SF-SAC). Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and the auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse  
Bureau of the Census  
P. O. Box 5000  
Jeffersonville, IN 47199-5000

The findings on compliance, items IV-A-04 through IV-H-04, detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the City. The per diem audit billing (including fee, expenses and hours) should be submitted with two copies of the reports filed with our office.

Beginning with audit reports issued for years ending June 30, 2004, we will be providing internet access to reports issued by CPA firms, to accompany our own reports which are already accessible through the internet. To allow this, you should submit an electronic copy of each FY2004 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to [submitreports@auditor.state.ia.us](mailto:submitreports@auditor.state.ia.us).

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the local government and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA  
Auditor of State

## **Additional Footnotes**

The Municipal Fire and Police Retirement System note and the Iowa Communities Assurance Pool information in the Risk note have been updated. The notes are as follows:

### **(X) Pension and Retirement Systems**

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104<sup>th</sup> St., Des Moines, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2004, 2003 and 2002 were \$\_\_\_\_\_, \$\_\_\_\_\_ and \$\_\_\_\_\_, respectively, which (met) exceeded the required minimum contribution for each year.

### **(Y) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

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### **Additional Footnotes**

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$\_\_\_\_\_.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with \_\_\_\_\_. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **Information Related to Municipal Utility Audits**

Municipal Utility audit report format should include the following:

1. Officials
2. Independent Auditor's Report
3. Management's Discussion and Analysis
4. Financial Statements (including a comparison of budget to actual)
5. Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting
6. Schedule of Findings:

Findings Related to the Financial Statements

Other Findings Related to Required Statutory Reporting:

- a. Official Depositories
- b. Certified Budget
- c. Questionable Disbursements
- d. Travel Expense
- e. Business Transactions
- f. Bond Coverage
- g. Board Minutes
- h. Deposits and Investments

Findings (a) through (h) are to be included regardless of whether there are any instances of non-compliance or not.

Municipal Utilities may be component units of a City, which may affect the Independent Auditor's Report and the footnote disclosure of the reporting entity.

Municipal Utility audits must meet the reporting and filing requirements prescribed in Chapter 11 of the Code of Iowa and must be performed in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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## Sample GAAP City

### Additional Notes

1. If the City has deposits in credit unions at June 30, 2004, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
  2. Also attached are a sample Corrective Action Plan for Federal Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
  3. The attached sample Corrective Action Plan refers the user to the City's response to the auditor's comment for the detailed corrective action planned. If the City's response to the auditor's comment does not include the details of its planned corrective action, this information should be included in the Corrective Action Plan itself.
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**Additional Notes (continued)****Sample A**

Sample Entity

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2004

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-04	Unsupported Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Tom Claim, Sample Entity Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 1, 2004.
III-B-04	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX	October 30, 2004
III-C-04	Financial Reporting	As reported in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December, 2004 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented.  Timely report filing will begin with the quarter ending December, 2004.

**Additional Notes (continued)****Sample B**

Sample Entity

## Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2004

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
C-III-01 B-III-02 B-III-03	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding nor has a management decision been issued on their part.
A-III-02 A-III-03	Segregation of Duties over Federal Revenues	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.
C-III-02 C-III-03	Fixed Assets	Corrective action taken.	
D-III-03	Financial Reporting	Partially corrected.	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.



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David A. Vaudt, CPA  
Auditor of State

## NEWS RELEASE

Contact:

FOR RELEASE \_\_\_\_\_

Auditor of State David A. Vaudt today released an audit report on the Sample GAAP City, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's revenues totaled \$\_\_\_\_\_ for the year ended June 30, 2004, a(n) \_\_\_\_ percent increase (decrease) from the prior year. Revenues included \$\_\_\_\_\_ in property tax, \$\_\_\_\_\_ for tax increment financing revenues, \$\_\_\_\_\_ from charges for service, \$\_\_\_\_\_ from operating grants, contributions and restricted interest, \$\_\_\_\_\_ from capital grants, contributions and restricted interest, \$\_\_\_\_\_ from local option sales tax, \$\_\_\_\_\_ from unrestricted investment earnings and \$\_\_\_\_\_ from other general revenues.

Expenses for City operations totaled \$\_\_\_\_\_, a(n) \_\_\_\_ percent increase from the previous year. Expenses included \$\_\_\_\_\_ for \_\_\_\_\_ a \_\_\_\_\_, \$\_\_\_\_\_ for \_\_\_\_\_ b \_\_\_\_\_, and \$\_\_\_\_\_ for \_\_\_\_\_ c \_\_\_\_\_, (a, b, c – functions with the three highest expense totals). Expenses for business type activities totaled \$\_\_\_\_\_.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2004**

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## Sample GAAP City

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Rosemary Jones	Mayor	Jan 2006
Dan Parks	Mayor Pro tem	Jan 2006
Betty Dager	Council Member	Jan 2004
Rose Arnoldson	Council Member	Jan 2004
Sarah Greene	Council Member	Jan 2004
Tom Taylor	Council Member	Jan 2004
Kevin Linden	Council Member	Jan 2006
Alan Notchwood	Council Member	Jan 2006
<b>(After January 2004)</b>		
Rosemary Jones	Mayor	Jan 2006
Dan Parks	Mayor Pro tem	Jan 2006
Kevin Linden	Council Member	Jan 2006
Alan Notchwood	Council Member	Jan 2006
Betty Dager	Council Member	Jan 2008
Rose Arnoldson	Council Member	Jan 2008
Sarah Greene	Council Member	Jan 2008
Tom Taylor	Council Member	Jan 2008
Alan Mead	Finance Director	Indefinite
Marilyn Martin	Clerk/Treasurer	Indefinite
Carl Pearce	Attorney	Indefinite

**Sample GAAP City**



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David A. Vaudt, CPA  
Auditor of State

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Sample GAAP City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Sample GAAP City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Sample GAAP City at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13 to the financial statements, for the year ended June 30, 2004, the Sample GAAP City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2004 on our consideration of the Sample GAAP City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 54 through 57 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Sample GAAP City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA  
Auditor of State

September 20, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Sample GAAP City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the Sample GAAP City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 5%, or approximately \$205,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$22,000.
- Program expenses increased 45%, or approximately \$1,810,000, in fiscal 2004 from fiscal 2003. Public safety, debt service and capital projects expenses increased approximately \$100,000, \$106,000 and \$1,560,000, respectively.
- The City's net assets increased 6%, or approximately \$930,000, from June 30, 2003 to June 30, 2004. Of this amount, the net assets of the governmental activities increased approximately \$860,000 and the net assets of the business type activities increased by approximately \$70,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Sample GAAP City as a whole and present an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Sample GAAP City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report three kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks, the sanitary sewer system and the City's sanitation department. These activities are financed primarily by user charges.
- The Component Unit includes the activities of the City's Municipal Airport Authority. The City is financially accountable for the Authority although it is legally separate from the City.

### *Fund Financial Statements*

The City has two kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing Revenues, Local Option Sales Tax and Payroll Tax Levy, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater and Sanitation Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Net Assets June 30, 2004			
	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 4,364,899	1,745,583	6,110,482
Capital assets	11,769,563	8,030,531	19,800,094
Total assets	16,134,462	9,776,114	25,910,576
Long-term liabilities	3,484,276	2,564,889	6,049,165
Other liabilities	3,141,561	252,085	3,393,646
Total liabilities	6,625,837	2,816,974	9,442,811
Net assets:			
Invested in capital assets, net of related debt	7,865,127	4,859,323	12,724,450
Restricted	1,940,802	298,234	2,239,036
Unrestricted	(297,304)	1,801,583	1,504,279
Total net assets	\$ 9,508,625	6,959,140	16,467,765

Net assets of governmental activities increased from FY03 by approximately \$861,000, or 10.0%. Net assets of business type activities increased from FY03 by approximately \$70,000, or 1.0%. The largest portion of the City's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$(297,000) at the end of this year. The deficit is due to capital projects undertaken to be financed from future revenues and interfund borrowing.

Changes in Net Assets  
Year ended June 30, 2004

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for service	\$ 234,653	1,741,205	1,975,858
Operating grants, contributions and restricted interest	724,676	16,573	741,249
Capital grants, contributions and restricted interest	418,467	-	418,467
General revenues:			
Property tax levied for:			
General purposes	1,285,719	-	1,285,719
Debt service	284,153	-	284,153
Tax increment financing revenues	818,589	-	818,589
Local option sales tax	427,700	-	427,700
Grants and contributions not restricted to specific purpose	100,929	-	100,929
Unrestricted investment earnings	24,062	27,420	51,482
Miscellaneous	47,277	587	47,864
Total revenues	<u>4,366,225</u>	<u>1,785,785</u>	<u>6,152,010</u>
Program expenses:			
Public safety	1,192,338	-	1,192,338
Public works	814,684	-	814,684
Culture and recreation	882,916	-	882,916
Community and economic development	63,152	-	63,152
General government	349,905	-	349,905
Interest on long-term debt	202,049	-	202,049
Water	-	452,581	452,581
Wastewater	-	673,958	673,958
Sanitation	-	589,312	589,312
Total expenses	<u>3,505,044</u>	<u>1,715,851</u>	<u>5,220,895</u>
Increase in net assets	861,181	69,934	931,115
Net assets beginning of year (as restated)	<u>8,647,444</u>	<u>6,889,206</u>	<u>15,536,650</u>
Net assets end of year	<u>\$ 9,508,625</u>	<u>6,959,140</u>	<u>16,467,765</u>

The City increased property tax rates for fiscal 2004 by approximately 1.6%. This increase raised the City's property tax revenue by approximately \$22,000 in fiscal 2004. Revenues for operating grants, contributions and restricted interest increased by approximately \$200,000 due to the receipt of a Community Development Block Grant for economic development.

## INDIVIDUAL MAJOR FUND ANALYSIS

### Governmental Fund Highlights

As Sample GAAP City completed the year, its governmental funds reported a combined fund balance of \$1,820,916, which is less than the \$2,382,860 total fund balance at June 30, 2003. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a modest decline of \$3,208 from the prior year to \$715,937.

The Tax Increment Financing Revenues Fund accounts for revenue from the tax authorized by ordinance in the urban renewal district which are used to pay the principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended fiscal 2004 with a \$(480,408) deficit balance compared to the prior year ending deficit balance of \$(350,717). The deficit fund balance is a result of providing loans to other funds for urban renewal projects prior to collection of tax increment financing revenue.

The Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements, equipment, and community programs and services. This fund ended fiscal 2004 with a \$1,139,911 balance compared to the prior year ending fund balance of \$1,026,139. Local option sales tax revenue increased by \$58,885 in fiscal 2004.

The Payroll Tax Levy Fund is used to account for the property tax levied to finance the payment of employee benefits. This fund ended fiscal 2004 with a \$5,079 balance compared to the prior year ending balance of \$73,724. Transfers out to operating funds increased by \$45,878 in fiscal 2004.

The Debt Service Fund ended fiscal 2004 with a \$71,773 balance compared to the prior year ending balance of \$65,975. Bond principal and interest payments increased by \$85,090 in fiscal 2004.

The Capital Projects Fund ended fiscal 2004 with a \$(317,506) deficit balance compared to the prior year ending balance of \$175,032. The fiscal 2004 deficit is a result of project costs exceeding available funds. The deficit will be eliminated through future transfers from other funds.

### **Proprietary Fund Highlights**

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2004 with a \$2,718,742 net asset balance compared to the prior year ending net asset balance of \$2,675,546.

The Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended fiscal 2004 with a \$3,912,891 net asset balance compared to the prior year ending net asset balance of \$3,900,913.

The Sanitation Fund, which accounts for the operation and maintenance of the City's solid waste collection system, ended fiscal 2004 with a \$327,507 net asset balance compared to the prior year ending net asset balance of \$312,747.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Sample GAAP City amended its budget two times. The first amendment was done in January 2004 and the second amendment was made in May 2004. These amendments were needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

Even with these amendments, the City exceeded the budgeted amount in the debt service function for the year ended June 30, 2004.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$11,769,563 (net of accumulated depreciation) at June 30, 2004. Capital assets for business type activities totaled \$7,543,323 (net of accumulated depreciation) at June 30, 2004. See Note 3 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included construction of the Fire and Training Center and renovation of the Memorial Library building.

For business type activities, major additions included an iron filter for the water plant.

Construction in progress at June 30, 2004 for governmental activities consists primarily of street projects and renovation of the Memorial Library building.

### **Long-Term Debt**

At June 30, 2004, the City had \$4,100,040 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business type activities was \$2,743,412 at June 30, 2004. During the year ended June 30, 2004, the City issued a total of \$965,000 in general obligation bonds to finance the City's 2004 street program and a portion of the costs for the Fire and Training Center.

The City continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$9 million. Other obligations include accrued vacation pay and sick leave. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

### **ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE**

Several economic factors affected decisions made by the City in setting its fiscal 2005 budget. The Sample GAAP City will experience a significant drop in General Fund revenues and expenditures from fiscal 2004 to fiscal 2005. The major factors that will play a role in this change are the reduction in intergovernmental revenue and decrease in property valuation for fiscal 2005.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index (CPI) increase. The State's CPI increase was 3.2 percent for fiscal 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due, in part, to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

The General Fund is projected to end fiscal 2005 with a fund balance of approximately \$680,000, a 4.46% decrease from fiscal 2003.

The tax levy rates per \$1,000 of taxable valuation for fiscal 2005 are provided below:

General levy	\$ 8.10
Aviation levy	0.27
Debt Service levy	2.47075
Trust and Agency levy	5.408010
Tort Liability levy	0.94434
	<hr/>
Total	<u>\$ 17.19310</u>

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the Finance Director, 101 Main Street, Sample GAAP City, Iowa.

## **Basic Financial Statements**

Sample GAAP City  
Statement of Net Assets  
June 30, 2004

	Primary Government	
	Governmental Activities	Business Type Activities
<b>Assets</b>		
Cash and pooled investments	\$ 2,083,969	1,209,693
Receivables:		
Property tax:		
Delinquent	26,280	-
Succeeding year	1,528,000	-
Tax increment financing:		
Delinquent	33,200	-
Succeeding year	747,000	-
Customer accounts and unbilled usage	-	160,499
Accounts	9,917	5,145
Accrued interest	2,988	2,386
Due from other governments	139,589	-
Due from other funds	(296,167)	296,167
Inventories	-	25,470
Prepaid expenses	90,123	46,223
Restricted assets:		
Cash and pooled investments	-	487,208
Capital assets (net of accumulated depreciation)	11,769,563	7,543,323
<b>Total assets</b>	<b>16,134,462</b>	<b>9,776,114</b>
<b>Liabilities</b>		
Accounts payable	79,746	19,681
Accrued interest payable	13,591	9,372
Salaries and benefits payable	40,533	11,350
Contracts payable	111,860	1,047
Due to other governments	5,067	12,510
Deferred revenue:		
Succeeding year property tax	1,528,000	-
Succeeding year tax increment financing	747,000	-
Long-term liabilities:		
Portion due or payable within one year:		
Customer deposits	-	19,602
General obligation bonds/notes	570,000	-
Revenue notes payable	-	160,000
Compensated absences	45,764	18,523
Portion due or payable after one year:		
General obligation bonds/notes (net of \$7,455 unamortized discount)	3,367,545	-
Revenue notes payable	-	2,524,000
Compensated absences	116,731	40,889
<b>Total liabilities</b>	<b>6,625,837</b>	<b>2,816,974</b>

	Component Unit
Total	Airport Authority
3,293,662	-
26,280	435
1,528,000	23,000
33,200	-
747,000	-
160,499	-
15,062	167
5,374	-
139,589	-
-	-
25,470	-
136,346	-
487,208	-
19,312,886	977,297
25,910,576	1,000,899
99,427	5,117
22,963	-
51,883	-
112,907	-
17,577	-
1,528,000	23,000
747,000	-
19,602	-
570,000	-
160,000	-
64,287	-
3,367,545	-
2,524,000	-
157,620	-
9,442,811	28,117

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Sample GAAP City  
Statement of Net Assets  
June 30, 2004

	Activities	Activities
<b>Net Assets</b>		
Invested in capital assets, net of related debt	7,865,127	4,859,323
Restricted for:		
Local option sales tax	1,139,911	-
Library	639,495	-
Debt service	59,444	-
Road purposes	31,796	-
Revenue note retirement	-	142,499
Wastewater replacement	-	55,735
Wastewater improvement	-	100,000
Other purposes	70,156	-
Unrestricted	(297,304)	1,801,583
<b>Total net assets</b>	<b>\$ 9,508,625</b>	<b>6,959,140</b>

See notes to financial statements.

<u>Total</u>	<u>Authority</u>
12,724,450	977,297
1,139,911	-
639,495	-
59,444	-
31,796	-
142,499	-
55,735	-
100,000	-
70,156	-
<u>1,504,279</u>	<u>(4,515)</u>
<u>16,467,765</u>	<u>972,782</u>

Sample GAAP City  
Statement of Activities  
Year ended June 30, 2004

		Program Revenues		
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>	Expenses	Service	Interest	Interest
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 1,192,338	66,129	46,842	134,974
Public works	814,684	11,838	424,466	145,449
Culture and recreation	882,916	141,217	98,946	-
Community and economic development	63,152	1,498	150,000	15,129
General government	349,905	13,971	-	122,915
Interest on long-term debt	202,049	-	4,422	-
Total governmental activities	3,505,044	234,653	724,676	418,467
Business type activities:				
Water	452,581	472,865	15,377	-
Wastewater	672,830	666,232	1,196	-
Sanitation	589,312	602,108	-	-
Total business type activities	1,714,723	1,741,205	16,573	-
<b>Total Primary Government</b>	<b>\$ 5,219,767</b>	<b>1,975,858</b>	<b>741,249</b>	<b>418,467</b>
<b>Component Unit:</b>				
Airport Authority	\$ 133,593	3,163	-	-
<b>General Revenues:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Airport Authority
(944,393)	-	(944,393)	-
(232,931)	-	(232,931)	-
(642,753)	-	(642,753)	-
103,475	-	103,475	-
(213,019)	-	(213,019)	-
(197,627)	-	(197,627)	-
(2,127,248)	-	(2,127,248)	-
-	35,661	35,661	-
-	(5,402)	(5,402)	-
-	12,796	12,796	-
-	43,055	43,055	-
(2,127,248)	43,055	(2,084,193)	-
-	-	-	(130,430)
1,285,719	-	1,285,719	26,213
284,153	-	284,153	-
818,589	-	818,589	-
427,700	-	427,700	-
100,929	-	100,929	-
24,062	27,420	51,482	-
47,277	587	47,864	28,894
2,988,429	28,007	3,016,436	55,107
861,181	71,062	932,243	(75,323)
8,647,444	6,889,206	15,536,650	1,048,105
\$ 9,508,625	6,960,268	16,468,893	972,782

Sample GAAP City  
Balance Sheet  
Governmental Funds

June 30, 2004

		Special Revenue	
		Tax Increment Financing Revenues	Local Option Sales Tax
	General		
<b>Assets</b>			
Cash and pooled investments	\$ 679,236	-	785,341
Receivables:			
Property tax:			
Delinquent	14,410	-	-
Succeeding year	785,000	-	-
Tax increment financing:			
Delinquent	-	33,200	-
Succeeding year	-	747,000	-
Accounts	8,111	-	-
Accrued interest	967	-	1,117
Due from other governments	49,801	-	42,895
Due from other funds	464	-	310,558
Prepaid expenditures	90,123	-	-
<b>Total assets</b>	<b>\$ 1,628,112</b>	<b>780,200</b>	<b>1,139,911</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 69,013	-	-
Salaries and benefits payable	40,533	-	-
Contracts payable	6,335	-	-
Due to other governments	5,067	-	-
Deferred revenue:			
Succeeding year property tax	785,000	-	-
Succeeding year tax increment financing	-	747,000	-
Other	6,227	20,644	-
Due to other funds	-	492,964	-
Total liabilities	912,175	1,260,608	-

Payroll Tax Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
-	67,991	388,737	162,664	2,083,969
6,922	4,948	-	-	26,280
468,000	275,000	-	-	1,528,000
-	-	-	-	33,200
-	-	-	-	747,000
-	-	1,800	6	9,917
-	97	596	211	2,988
-	-	15,097	31,796	139,589
-	-	-	492,964	803,986
-	-	-	-	90,123
474,922	348,036	406,230	687,641	5,465,052
-	-	9,222	1,511	79,746
-	-	-	-	40,533
-	-	105,525	-	111,860
-	-	-	-	5,067
468,000	275,000	-	-	1,528,000
-	-	-	-	747,000
1,843	1,263	1,800	-	31,777
-	-	607,189	-	1,100,153
469,843	276,263	723,736	1,511	3,644,136

Sample GAAP City  
Balance Sheet  
Governmental Funds

June 30, 2004

	Special Revenue		
	Tax Increment	Local	
	Financing	Option	
	General	Revenues	Sales Tax
<b>Liabilities and Fund Balances (continued)</b>			
Fund balances:			
Reserved for debt service	-	-	-
Unreserved:			
Designated for:			
Library gifts and memorials	48,395	-	-
Future equipment purchases/ capital improvements	100,024	-	-
Undesignated:			
Reported in:			
General fund	567,518	-	-
Special revenue funds	-	(480,408)	1,139,911
Capital projects fund	-	-	-
Total fund balances	715,937	(480,408)	1,139,911
<b>Total liabilities and fund balances</b>	<b>\$ 1,628,112</b>	<b>780,200</b>	<b>1,139,911</b>

See notes to financial statements.

Payroll Tax Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
-	71,773	-	-	71,773
-	-	-	-	48,395
-	-	-	-	100,024
-	-	-	-	567,518
5,079	-	-	686,130	1,350,712
-	-	(317,506)	-	(317,506)
5,079	71,773	(317,506)	686,130	1,820,916
474,922	348,036	406,230	687,641	5,465,052

**Sample GAAP City**

## Sample GAAP City

Reconciliation of the Balance Sheet –  
Governmental Funds to the Statement of Net Assets

June 30, 2004

<b>Total governmental fund balances (page 23)</b>	\$ 1,820,916
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***Amounts reported for governmental activities in the Statement of Net Assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$16,905,143 and the accumulated depreciation is \$5,135,580.

11,769,563

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.

31,777

Long-term liabilities, including bonds payable, compensated absences and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

(4,113,631)**Net assets of governmental activities (page 16)**\$ 9,508,625

See notes to financial statements.

Sample GAAP City

Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit)  
Governmental Funds

Year ended June 30, 2004

	Special Revenue				
	Tax				Debt Service
	General	Increment Financing Revenues	Local Option Sales Tax	Payroll Tax Levy	
Revenues:					
Property tax	\$ 787,958	-	-	377,704	262,736
Tax increment financing	-	799,121	-	-	-
Other city tax	97,043	-	427,700	37,406	20,313
Licenses and permits	41,528	-	-	-	-
Use of money and property	12,631	-	13,881	-	4,422
Intergovernmental	308,849	-	-	-	-
Charges for service	146,660	-	-	-	-
Miscellaneous	104,653	-	-	-	185
Total revenues	1,499,322	799,121	441,581	415,110	287,656
Expenditures:					
Operating:					
Public safety	1,076,362	-	-	-	-
Public works	434,386	-	-	-	-
Culture and recreation	664,445	-	-	-	-
Community and economic development	868	50,000	-	-	-
General government	335,056	-	-	-	-
Debt service	-	30,400	-	-	667,191
Capital projects	-	-	-	-	-
Total expenditures	2,511,117	80,400	-	-	667,191
Excess (deficiency) of revenues over (under) expenditures	(1,011,795)	718,721	441,581	415,110	(379,535)
Other financing sources (uses):					
Operating transfers in	1,008,938	-	-	-	385,333
Operating transfers out	(351)	(848,412)	(327,809)	(483,755)	-
General obligation bonds issued	-	-	-	-	-
Discount on general obligation bonds	-	-	-	-	-
Total other financing sources (uses)	1,008,587	(848,412)	(327,809)	(483,755)	385,333
Net change in fund balances	(3,208)	(129,691)	113,772	(68,645)	5,798
Fund balances (deficit) beginning of year, as restated	719,145	(350,717)	1,026,139	73,724	65,975
Fund balances (deficit) end of year	\$ 715,937	(480,408)	1,139,911	5,079	71,773

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
-	-	1,428,398
-	-	799,121
-	-	582,462
-	-	41,528
7,868	23,143	61,945
282,902	419,279	1,011,030
-	-	146,660
156,936	8,217	269,991
447,706	450,639	4,341,135
-	11,119	1,087,481
-	-	434,386
-	-	664,445
-	4,173	55,041
-	-	335,056
-	-	697,591
2,586,624	-	2,586,624
2,586,624	15,292	5,860,624
(2,138,918)	435,347	(1,519,489)
1,513,019	-	2,907,290
(824,184)	(422,779)	(2,907,290)
965,000	-	965,000
(7,455)	-	(7,455)
1,646,380	(422,779)	957,545
(492,538)	12,568	(561,944)
175,032	673,562	2,382,860
(317,506)	686,130	1,820,916

**Sample GAAP City**

Sample GAAP City

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances -  
Governmental Funds to the Statement of Activities

Year ended June 30, 2004

**Net change in fund balances - Total governmental funds (page 27)** \$ (561,944)

***Amounts reported for governmental activities in the Statement of  
Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 2,553,986	
Depreciation expense	(686,170)	1,867,816

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	25,448	
Other	(380)	25,068

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(965,000)	
Discount on general obligation bonds	7,455	
Repaid	495,000	(462,545)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(7,756)	
Interest on long-term debt	542	(7,214)

**Change in net assets of governmental activities (page 19)** \$ 861,181

See notes to financial statements.

Sample GAAP City  
Statement of Net Assets  
Proprietary Funds

June 30, 2004

	Enterprise	
	Water	Wastewater
<b>Assets</b>		
Cash and pooled investments	\$ 502,320	589,333
Receivables (net of allowance for uncollectibles):		
Customer accounts and unbilled usage	47,331	67,734
Accounts	483	262
Accrued interest	714	1,504
Due from other funds	99,495	196,672
Inventories	25,470	-
Prepaid expenses	14,206	16,103
Restricted assets:		
Cash and pooled investments	19,602	467,606
Capital assets (net of accumulated depreciation)	2,067,077	5,298,720
<b>Total assets</b>	<b>2,776,698</b>	<b>6,637,934</b>
<b>Liabilities</b>		
Accounts payable	12,488	6,065
Salaries and benefits payable	3,358	3,276
Contracts payable	141	906
Due to other governments	1,766	823
Payable from restricted assets:		
Customer deposits	19,602	-
Revenue notes payable	-	160,000
Accrued interest payable	-	9,372
Compensated absences	6,394	6,394
Long-term liabilities:		
Revenue notes payable	-	2,524,000
Compensated absences	14,207	14,207
<b>Total liabilities</b>	<b>57,956</b>	<b>2,725,043</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,067,077	2,614,720
Restricted for:		
Revenue note retirement	-	142,499
Wastewater improvement	-	100,000
Wastewater replacement	-	55,735
Unrestricted	651,665	999,937
<b>Total net assets</b>	<b>\$ 2,718,742</b>	<b>3,912,891</b>

See notes to financial statements.

Funds	
Sanitation	Total
118,040	1,209,693
45,434	160,499
4,400	5,145
168	2,386
-	296,167
-	25,470
15,914	46,223
-	487,208
177,526	7,543,323
361,482	9,776,114
1,128	19,681
4,716	11,350
-	1,047
9,921	12,510
-	19,602
-	160,000
-	9,372
5,735	18,523
-	2,524,000
12,475	40,889
33,975	2,816,974
177,526	4,859,323
-	142,499
-	100,000
-	55,735
149,981	1,801,583
327,507	6,959,140

Sample GAAP City

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2004

	Enterprise	
	Water	Wastewater
Operating revenues:		
Charges for service	\$ 472,865	666,232
Miscellaneous	15,377	68
Total operating revenues	488,242	666,300
Operating expenses:		
Business type activities:		
Cost of sales and services	360,060	354,800
Depreciation	92,521	199,349
Total operating expenses	452,581	554,149
Operating income	35,661	112,151
Non-operating revenues (expenses):		
Interest income	7,535	18,508
Interest expense	-	(119,755)
Miscellaneous	-	1,074
Total non-operating revenues (expenses)	7,535	(100,173)
Change in net assets	43,196	11,978
Net assets beginning of year	2,675,546	3,900,913
Net assets end of year	\$ 2,718,742	3,912,891

See notes to financial statements.

Funds	
Sanitation	Total
602,108	1,741,205
587	16,032
602,695	1,757,237
556,588	1,271,448
32,724	324,594
589,312	1,596,042
13,383	161,195
1,377	27,420
-	(119,755)
-	1,074
1,377	(91,261)
14,760	69,934
312,747	6,889,206
327,507	6,959,140

Sample GAAP City  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2004

	Enterprise	
	Water	Wastewater
Cash flows from operating activities:		
Cash received from customers and users	\$ 489,076	689,081
Cash received from other revenues	15,377	68
Cash paid for personal services	(189,253)	(189,309)
Cash paid to suppliers	(196,133)	(190,262)
Net cash provided by operating activities	119,067	309,578
Cash flows from noncapital financing activities:		
Advances to other funds, net of advance repayments	13,025	17,792
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(31,980)	(29,464)
Principal paid on revenue notes	-	(153,000)
Interest paid on revenue notes	-	(120,289)
Net cash used for capital and related financing activities	(31,980)	(302,753)
Cash flows from investing activities:		
Interest on investments	7,808	19,536
Net cash provided by investing activities	7,808	19,536
Net increase in cash and cash equivalents	107,920	44,153
Cash and cash equivalents beginning of year	414,002	1,012,786
Cash and cash equivalents end of year	\$ 521,922	1,056,939

See notes to financial statements.

Funds	
Sanitation	Total
603,072	1,781,229
371	15,816
(233,637)	(612,199)
(325,452)	(711,847)
44,354	472,999
-	30,817
-	(61,444)
-	(153,000)
-	(120,289)
-	(334,733)
1,392	28,736
1,392	28,736
45,746	197,819
72,294	1,499,082
118,040	1,696,901

Sample GAAP City  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2004

	Enterprise	
	Water	Wastewater
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 35,661	112,151
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	92,521	199,349
Decrease in customer accounts receivable and unbilled usage and other accounts receivable	16,213	22,849
(Increase) decrease in inventories, at cost	(1,723)	-
(Increase) in prepaid expenses	(2,315)	(2,275)
Increase (decrease) in accounts payable	22,350	(2,021)
Increase (decrease) in salaries payable	87	34
Increase in contract payables	(42,298)	(19,094)
Increase (decrease) in compensated absences	(1,600)	(1,600)
Increase in due to other governments	171	185
Net cash provided by operating activities	<u>\$ 119,067</u>	<u>309,578</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:</b>		
Current assets:		
Cash and pooled investments	\$ 502,320	589,333
Restricted assets:		
Cash and pooled investments:		
Customer deposits	19,602	-
Revenue note retirement	-	311,871
Wastewater improvement	-	100,000
Wastewater replacement	-	55,735
Cash and cash equivalents at year end	<u>\$ 521,922</u>	<u>1,056,939</u>

See notes to financial statements.

Funds	
Sanitation	Total
13,383	161,195
32,724	324,594
748	39,810
-	(1,723)
(2,173)	(6,763)
(189)	20,140
222	343
-	(61,392)
(1,116)	(4,316)
755	1,111
44,354	472,999

118,040	1,209,693
-	19,602
-	311,871
-	100,000
-	55,735
118,040	1,696,901

Sample GAAP City

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

Sample GAAP City is a political subdivision of the State of Iowa located in Sample County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The Sample GAAP City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. It also operates the airport and provides water, sewer and sanitation utilities.

The financial statements of the Sample GAAP City have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, the Sample GAAP City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the Sample GAAP City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

**Discretely Presented Component Unit**

The Sample GAAP City Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Sample GAAP City Council who serve at the pleasure of the City Council. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented. The Authority is accounted for as a Proprietary Fund in these financial statements.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sample County Assessor's Conference Board, Sample County Planning Commission, Sample Housing Authority, Sample County Sanitary Solid Waste Disposal Commission, Sample County Emergency Management Commission and Sample County E911 Service Board.

### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

The Payroll Tax Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2003.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	50,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40-50 years
Improvements other than buildings	20-50 years
Vehicles	10-15 years
Equipment	5-30 years
Infrastructure	15-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

<b>Primary Government</b>	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 835,920	-	-	835,920
Construction in progress - infrastructure	543,425	523,738	(890,983)	176,180
Construction in progress - other	418,419	622,362	(103,791)	936,990
Total capital assets not being depreciated	1,797,764	1,146,100	(994,774)	1,949,090
Capital assets being depreciated:				
Buildings	2,596,193	1,346,005	-	3,942,198
Improvements other than buildings	2,944,161	47,108	-	2,991,269
Equipment and vehicles	2,082,578	118,564	(10,345)	2,190,797
Infrastructure, road network	4,940,806	890,983	-	5,831,789
Total capital assets being depreciated	12,563,738	2,402,660	(10,345)	14,956,053
Less accumulated depreciation for:				
Buildings	321,991	77,145	-	399,136
Improvements other than buildings	467,013	142,768	-	609,781
Equipment and vehicles	1,124,676	179,716	(10,345)	1,294,047
Infrastructure, road network	2,546,075	286,541	-	2,832,616
Total accumulated depreciation	4,459,755	686,170	(10,345)	5,135,580
Total capital assets being depreciated, net	8,103,983	1,716,490	-	9,820,473
Governmental activities capital assets, net	\$ 9,901,747	2,862,590	(994,774)	11,769,563
<b>Business type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 3,500	-	-	3,500
Construction in progress	456,429	35,173	(456,429)	35,173
Total capital assets not being depreciated	459,929	35,173	(456,429)	38,673
Capital assets being depreciated:				
Buildings	771,655	-	(4,818)	766,837
Improvements other than buildings	201,054	1,937	-	202,991
Equipment and vehicles	762,147	459,794	(7,966)	1,213,975
Infrastructure, water and sewer network	9,541,852	-	-	9,541,852
Total capital assets being depreciated	11,276,708	461,731	(12,784)	11,725,655
Less accumulated depreciation for:				
Buildings	428,167	14,573	(4,810)	437,930
Improvements other than buildings	113,225	6,931	-	120,156
Equipment and vehicles	373,279	92,116	(7,912)	457,483
Infrastructure, water and sewer network	2,994,462	210,974	-	3,205,436
Total accumulated depreciation	3,909,133	324,594	(12,722)	4,221,005
Total capital assets being depreciated, net	7,367,575	137,137	(62)	7,504,650
Business type activities capital assets, net	\$ 7,827,504	172,310	(456,491)	7,543,323

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:				
Public safety				\$ 112,658
Public works				333,982
Culture and recreation				229,594
General government				9,936
Total depreciation expense - governmental activities				<u>\$ 686,170</u>
Business type activities:				
Water				\$ 92,521
Wastewater				199,349
Sanitation				32,724
Total depreciation expense - business type activities				<u>\$ 324,594</u>
	Balance			Balance
	Beginning			End
	of Year			of Year
	(as restated, note 13)	Increases	Decreases	
<b>Discretely presented component unit</b>				
Capital assets not being depreciated:				
Land	\$ 55,875	-	-	55,875
Capital assets being depreciated:				
Buildings	148,524	-	-	148,524
Improvements other than buildings	25,388	-	-	25,388
Equipment and vehicles	133,746	-	-	133,746
Infrastructure, runway network	1,387,290	-	-	1,387,290
Total capital assets being depreciated	<u>1,694,948</u>	-	-	<u>1,694,948</u>
Less accumulated depreciation for:				
Buildings	126,702	2,181	-	128,883
Improvements other than buildings	18,769	1,406	-	20,175
Equipment and vehicles	47,317	8,135	-	55,452
Infrastructure, runway network	508,999	60,017	-	569,016
Total accumulated depreciation	<u>701,787</u>	<u>71,739</u>	-	<u>773,526</u>
Total capital assets being depreciated, net	<u>993,161</u>	<u>(71,739)</u>	-	<u>921,422</u>
Airport Authority capital assets, net	<u>\$ 1,049,036</u>	<u>(71,739)</u>	-	<u>977,297</u>
Total depreciation expense - discretely presented component unit				<u>\$ 71,739</u>

#### (4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance			Balance	Due
	Beginning			End	Within
	of Year			of Year	One Year
	(as restated, note 13)	Increases	Decreases		
Governmental activities:					
General obligation bonds/notes	\$ 3,475,000	957,545	495,000	3,937,545	(1) 570,000
Compensated absences	154,739	43,055	35,299	162,495	45,764
Total	<u>\$ 3,629,739</u>	<u>1,000,600</u>	<u>530,299</u>	<u>4,100,040</u>	<u>615,764</u>

(1) Bonds were sold at a discount; unamortized discount at June 30, 2004 totaled \$7,455.

	Balance			Balance	Due
	Beginning			End	Within
	of Year	Increases	Decreases	of Year	One Year
Business type activities:					
Revenue notes	\$ 2,837,000	-	153,000	2,684,000	160,000
Compensated absences	63,728	11,183	15,499	59,412	18,523
Total	<u>\$ 2,900,728</u>	<u>11,183</u>	<u>168,499</u>	<u>2,743,412</u>	<u>178,523</u>

### General obligation bonds/notes

Eight issues of unmatured general obligation bonds/notes, totaling \$3,945,000, are outstanding at June 30, 2004. General obligation bonds/notes bear interest at rates ranging from 1.65% to 5.40% and mature in varying annual amounts, ranging from \$45,000 to \$215,000, with the final maturities due in the year ending June 30, 2015.

Details of general obligation bonds/notes payable at June 30, 2004 are as follows:

			Final		Amount	
	Date of	Interest	Due	Annual	Originally	Outstanding
Governmental activities:	Issue	Rates	Date	Payments	Issued	June 30, 2004
General obligation bonds/notes:						
General and essential corporate purpose	Aug 1, 1994	4.40-4.75%	Jun 1, 2005	\$ 35,000-50,000	430,000	50,000
Capital loan notes	Jul 1, 1999	4.05-4.125	Jun 1, 2005	55,000-65,000	300,000	65,000
Capital loan notes	Jul 1, 2000	4.25-4.65	Jun 1, 2006	50,000-60,000	270,000	115,000
Corporate purpose	Jul 1, 2000	4.80-5.00	Jun 1, 2015	120,000-215,000	2,400,000	1,905,000
Capital loan notes	Jul 1, 2001	5.15-5.40	Jun 1, 2007	40,000-50,000	230,000	145,000
Capital loan notes	Oct 15, 2002	2.45-4.00	Jun 1, 2010	100,000-130,000	800,000	700,000
Essential corporate purpose	Oct 15, 2003	1.65-2.85	Jun 1, 2009	50,000-55,000	265,000	265,000
Essential corporate purpose	Dec 15, 2003	2.40-4.00	Jun 1, 2014	60,000-80,000	700,000	700,000
Total governmental activities						\$ 3,945,000

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year			
Ending			
June 30,	Principal	Interest	Total
2005	\$ 570,000	163,100	733,100
2006	475,000	141,254	616,254
2007	435,000	123,059	558,059
2008	395,000	106,511	501,511
2009	410,000	91,654	501,654
2010-2014	1,445,000	245,198	1,690,198
2015	215,000	10,750	225,750
Total	\$ 3,945,000	881,526	4,826,526

### Revenue notes

One issue of unmatured revenue notes, totaling \$2,684,000, is outstanding at June 30, 2004. These notes bear interest at a rate of 4.19% and mature in varying annual amounts ranging from \$160,000 to \$261,000, with the final maturity due in the year ending June 30, 2017.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.

- (c) Additional monthly transfers of \$2,000 to separate wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2004, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2004 are as follows:

Business type activities:						
	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2004
Revenue notes:						
Wastewater revenue capital loan notes, series 1997	Feb 16, 1997	4.19%	Jun 1, 2017	\$ 156,000-261,000	4,745,000	2,684,000

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 160,000	112,460	272,460
2006	166,000	105,756	271,756
2007	173,000	98,800	271,800
2008	180,000	91,551	271,551
2009	188,000	84,009	272,009
2010-2014	1,065,000	295,060	1,360,060
2015-2017	752,000	63,898	815,898
Total	\$ 2,684,000	851,534	3,535,534

**(5) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 422,779
	Payroll Tax Levy	483,755
	Local Option Sales Tax	98,655
	Capital Projects	3,749
		<u>1,008,938</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	229,154
	Tax Increment Financing Revenues	156,179
		<u>385,333</u>
Capital Projects	General	351
	Special Revenue:	
	Tax Increment Financing Revenues	692,233
	Capital Projects	820,435
		<u>1,513,019</u>
Total		<u>\$ 2,907,290</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(6) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	\$ 464
Special Revenue:		
Local Option Sales Tax	Capital Projects	310,558
Library	Special Revenue:	
Endowment	Tax Increment Financing Revenues	452,964
Library	Special Revenue:	
Maintenance	Tax Increment Financing Revenues	40,000
Enterprise:		
Water	Capital Projects	99,495
Wastewater	Capital Projects	<u>196,672</u>
Total		<u>\$ 1,100,153</u>

These balances result from interfund loans to finance projects. Repayments will be made from future revenues.

**(7) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$411,927, \$410,298 and \$391,314, respectively, equal to the required contributions for each year.

**(8) Industrial Development Revenue Bonds**

The City has issued a total of \$16,325,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$8,247,020 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**(9) Deficit Balances**

At June 30, 2004, funds with deficit balances were as follows:

Special Revenue, Tax Increment Financing Revenues Fund	\$ 480,408
Capital Projects Fund	\$ 317,506

These deficit balances are the result of project costs in excess of available funds. These deficits will be eliminated upon collection of tax increment financing revenues and the subsequent transfer of these revenues into the Capital Projects Fund.

**(10) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Commitments**

The City has entered into construction contracts totaling \$1,190,824 for renovation of the Memorial Library and a street construction project. As of June 30, 2004, costs of \$866,476 have been incurred on the projects. The remaining \$324,348 will be paid as work on the projects progresses.

**(12) Subsequent Events**

In July 2004, the City entered into a contract for \$570,000 for the construction of a garage for the street department. The project will be funded with general obligation bonds issued in September 2004.

In September 2004, the City issued \$960,000 of general obligation bonds to pay the costs of certain street improvements and a street garage. The bonds are payable from a continuing annual levy of taxes against all taxable property of the City.

**(13) Accounting Change and Restatements**

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the City’s governmental and business type activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$9,240,804 were restated to \$9,901,747, net of accumulated depreciation of \$4,459,755. The restatement resulted from adding infrastructure assets and transferring certain capital assets to the Airport Authority.

The effects of the accounting change and other restatements are summarized as follows:

Primary Government:

Governmental activities:	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 2,364,419
GASB Interpretation 6 adjustments	<u>18,441</u>
Net assets July 1, 2003, as restated for governmental funds	2,382,860
 GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$4,459,755 and transfer to airport authority	9,901,747
Long-term liabilities	(3,629,739)
Deferral of long-term assets	6,709
Interest payable	<u>(14,133)</u>
 Net assets July 1, 2003, as restated	<u><u>\$ 8,647,444</u></u>

Business type activities:

Certain capital assets previously reported as "Improvements Other than Buildings" were reclassified to "Infrastructure." This reclassification, totaling \$9,541,852, had no effect on the business type activities beginning net assets.

Discretely Presented Component Unit:

The beginning net assets of the Discretely Presented Component Unit, Airport Authority were restated to include the capital assets owned by the Authority, as follows:

Net assets June 30, 2003, as previously reported	\$ (931)
Transfer of capital assets from City	<u>1,049,036</u>
 Net assets July 1, 2003, as restated	<u><u>\$ 1,048,105</u></u>

### **Required Supplementary Information**

Sample GAAP City

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis) -  
Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts:			
Property tax	\$ 1,427,407	-	1,427,407
Tax increment financing	778,629	-	778,629
Other city tax	575,563	-	575,563
Licenses and permits	38,913	-	38,913
Use of money and property	48,253	28,736	76,989
Intergovernmental	916,507	-	916,507
Charges for service	142,577	1,781,243	1,923,820
Special assessments	-	-	-
Miscellaneous	328,738	16,033	344,771
Total receipts	4,256,587	1,826,012	6,082,599
Disbursements:			
Public safety	1,086,960	-	1,086,960
Public works	438,668	-	438,668
Culture and recreation	651,293	-	651,293
Community and economic development	-	-	-
General government	337,703	-	337,703
Debt service	667,190	-	667,190
Capital projects	2,708,508	-	2,708,508
Business type activities	-	1,659,010	1,659,010
Total disbursements	5,890,322	1,659,010	7,549,332
Excess (deficiency) of receipts over (under) disbursements	(1,633,735)	167,002	(1,466,733)
Other financing sources, net	926,914	30,817	957,731
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(706,821)	197,819	(509,002)
Balances beginning of year	2,790,790	1,499,082	4,289,872
Balances end of year	\$ 2,083,969	1,696,901	3,780,870

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Actual
		Variance
1,424,342	1,424,342	3,065
750,000	750,000	28,629
540,739	540,739	34,824
43,740	43,740	(4,827)
114,463	114,463	(37,474)
1,900,580	2,030,580	(1,114,073)
1,924,368	1,900,549	23,271
13,000	13,000	(13,000)
581,648	597,648	(252,877)
7,292,880	7,415,061	(1,332,462)
1,070,264	1,090,264	3,304
492,350	509,010	70,342
631,833	668,133	16,840
1,074,400	1,077,900	1,077,900
383,334	412,034	74,331
652,561	652,561	(14,629)
3,142,600	3,778,620	1,070,112
2,308,020	2,328,020	669,010
9,755,362	10,516,542	2,967,210
(2,462,482)	(3,101,481)	1,634,748
1,400,000	1,704,130	(746,399)
(1,062,482)	(1,397,351)	888,349
2,327,528	3,491,060	798,812
1,265,046	2,093,709	1,687,161

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Sample GAAP City

Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds			Proprietary Funds		
				Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 4,256,587	84,548	4,341,135	1,826,012	(40,227)	1,785,785
Expenditures/expenses	5,890,322	(29,698)	5,860,624	1,659,010	56,841	1,715,851
Net	(1,633,735)	114,246	(1,519,489)	167,002	(97,068)	69,934
Other financing sources, net	926,914	30,631	957,545	30,817	(30,817)	-
Beginning fund balances/net assets, as restated	2,790,790	(407,930)	2,382,860	1,499,082	5,390,124	6,889,206
Ending fund balances/net assets	\$ 2,083,969	(263,053)	1,820,916	1,696,901	5,262,239	6,959,140

See accompanying independent auditor's report.

Sampe GAAP City

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$761,180. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements in the debt service function exceeded the amount budgeted.

**Sample GAAP City**

### **Other Supplementary Information**

Sample GAAP City  
Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2004

	Road Use Tax	Library Endowment
<b>Assets</b>		
Cash and pooled investments	\$ -	106,576
Receivables:		
Accounts	-	-
Accrued interest	-	-
Due from other governments	31,796	-
Due from other funds	-	452,964
<b>Total assets</b>	<b>\$ 31,796</b>	<b>559,540</b>
<b>Liabilities and Fund Equity</b>		
Liabilities:		
Accounts payable	\$ -	-
Fund equity:		
Fund balances:		
Unreserved, undesignated	31,796	559,540
<b>Total liabilities and fund equity</b>	<b>\$ 31,796</b>	<b>559,540</b>

See accompanying independent auditor's report.

Library Maintenance	Volunteer Fire Department	Total
41,249	14,839	162,664
6	-	6
211	-	211
-	-	31,796
40,000	-	492,964
81,466	14,839	687,641
1,511	-	1,511
79,955	14,839	686,130
81,466	14,839	687,641

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Sample GAAP City  
Combining Schedule of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Road Use Tax	Library Endowment
Revenues:		
Use of money and property	\$ -	-
Intergovernmental	419,279	-
Miscellaneous	-	-
Total revenues	419,279	-
Expenditures:		
Operating:		
Public safety	-	-
Community and economic development	-	-
Total expenditures	-	-
Excess (deficiency) of revenues over (under) expenditures	419,279	-
Other financing uses:		
Operating transfers out:		
General	(422,779)	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(3,500)	-
Fund balances beginning of year	35,296	559,540
Fund balances end of year	\$ 31,796	559,540

See accompanying independent auditor's report.

Library Maintenance	Volunteer Fire Department	Total
22,910	233	23,143
-	-	419,279
6	8,211	8,217
22,916	8,444	450,639
-	11,119	11,119
4,173	-	4,173
4,173	11,119	15,292
18,743	(2,675)	435,347
-	-	(422,779)
18,743	(2,675)	12,568
61,212	17,514	673,562
79,955	14,839	686,130

**Schedule 3**

## Sample GAAP City

Schedule of Revenues by Source and Expenditures by Function-  
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property tax	\$ 1,428,398	1,406,255	1,391,000	1,389,300
Tax increment financing revenue	799,121	752,000	690,000	645,000
Other city tax	582,462	554,300	515,982	495,910
Licenses and permits	41,528	43,075	44,280	40,101
Use of money and property	61,945	105,575	112,310	139,812
Intergovernmental	1,011,030	810,417	797,300	707,300
Charges for service	146,660	132,792	133,411	134,250
Miscellaneous	269,991	331,296	320,517	338,595
Total	\$ 4,341,135	4,135,710	4,004,800	3,890,268
Expenditures:				
Operating:				
Public safety	\$ 1,087,481	986,720	950,300	912,444
Public works	434,386	411,987	400,616	402,640
Culture and recreation	664,445	653,739	637,311	618,128
Community and economic development	55,041	53,919	45,244	41,311
General government	335,056	325,803	311,829	311,914
Debt service	697,591	591,399	545,611	538,998
Capital projects	2,586,624	1,025,000	1,108,500	999,980
Total	\$ 5,860,624	4,048,567	3,999,411	3,825,415

See accompanying independent auditor's report.

Sample GAAP City  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 5,000
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	04-CD-000	385,000
Federal Highway Administration:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-65-6(39)-2C-00	20,000
Highway Planning and Construction	20.205	STP-E-3720(4)-8V-00	100,000
			120,000
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Hazard Mitigation Grant	97.036	F094-00-00	1,500
U.S. Department of Education:			
State Library of Iowa:			
Public Library Services	84.034	04-PAR-01-000	5,500
Total indirect			512,000
Total			\$ 517,000

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Sample GAAP City and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**Sample GAAP City**

**Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting**

**Sample GAAP City**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA  
Auditor of State

## Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the Sample GAAP City, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Sample GAAP City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-04 and IV-J-04.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sample GAAP City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sample GAAP City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Prior year reportable conditions have been resolved except for item II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Sample GAAP City and other parties to whom the Sample GAAP City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Sample GAAP City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA  
Auditor of State

**Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance**

**Sample GAAP City**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

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Telephone (515) 281-5834 Facsimile (515) 242-6134

## Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and  
Members of the City Council:

### Compliance

We have audited the compliance of the Sample GAAP City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The Sample GAAP City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Sample GAAP City's management. Our responsibility is to express an opinion on Sample GAAP City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sample GAAP City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Sample GAAP City's compliance with those requirements.

In our opinion, the Sample GAAP City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

### Internal Control Over Compliance

The management of the Sample GAAP City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Sample GAAP City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Sample GAAP City and other parties to whom the Sample GAAP City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2004

DAVID A. VAUDT, CPA  
Auditor of State

Sample GAAP City  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample GAAP City did not qualify as a low-risk auditee.

Sample GAAP City  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-04 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

II-B-03 Information Systems – The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring independent review of payroll and utility rates.
- Computer usage and Internet usage.

Also, the computer system does not lock out a user if the user has entered the wrong password a specified number of times.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems. Passwords should be periodically changed, independent review should be performed on utility and payroll rates, and the computer should lock out users that input their password incorrectly a specified number of times.

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Response – The City will review current policies and procedures and adjust accordingly.

Conclusion – Response accepted.

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**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

No material weaknesses in internal control over the major program were noted.

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**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Anywhere Flower Shop	Flower arrangements for gifts	\$ 332
Anywhere Quick Shop	Pop and food for City employees	239

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

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- IV-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rosemary Jones, Mayor, Owner of Jones Construction	Construction, per bid	\$ 105,052
Kevin Linden, Council Member, Owner of Linden Welding	Repair and welding	1,295
J. J. Silver, Public Works Director, Part-owner of J. J.'s Hardware	Parts and supplies	436

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member and Public Works Director do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with the Mayor does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

- IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session on May 19, 2004. However, the minutes record did not document the specific information regarding the closed session required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes and annual individual salaries as required.

Response – We will comply with the Code requirements for closed sessions. We will publish minutes and salaries as required.

Conclusion – Response accepted.

- IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- IV-I-04 Revenue Notes – The City has complied with the wastewater revenue note provisions.

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IV-J-04 Fire Department Activities – The Sample GAAP City Volunteer Fire Department maintains a separate checking account for donations and fund raising activities. Certain expenditures, such as a dinner for volunteers and their family members, from this account may not meet the requirements of public purpose.

Recommendation – The City and the Volunteer Fire Department should determine and document the public purpose served by these expenditures before authorizing further payments and should consider initiating steps to legally segregate the donation and fund raising activities of the Association from the City.

Response – We will contact the City Attorney to set this up.

Conclusion – Response accepted.

IV-K-04 Other Information Required by Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2004:

Insurer	Description	Amount	Expiration Date
Smith Insurance	Property coverage	\$ 20,000,000	Apr 1, 2005
Smith Insurance	Liability coverage:		
	General aggregate	2,000,000	Apr 1, 2005
	Products aggregate	2,000,000	Apr 1, 2005
	Personal injury	1,000,000	Apr 1, 2005
	Each occurrence	1,000,000	Apr 1, 2005
	Fire damage	100,000	Apr 1, 2005
	Medical expense	5,000	Apr 1, 2005
Smith Insurance	Inland Marine:		
	Contractor's equipment	600,000	Apr 1, 2005
	Data processing	300,000	Apr 1, 2005
	Valuable papers:		
	Location 2	50,000	Apr 1, 2005
Smith Insurance	Inland marine:		
	Location 3	100,000	Apr 1, 2005
	Location 4	500,000	Apr 1, 2005
	Miscellaneous property	50,000	Apr 1, 2005
Smith Insurance	Automobile coverage:		
	Liability	1,000,000	Apr 1, 2005
	Auto medical	5,000	Apr 1, 2005
	Uninsured motorist	50,000	Apr 1, 2005
	Underinsured motorist	50,000	Apr 1, 2005
	Comprehensive/collision	Lesser of cash value or cost of repair	Apr 1, 2005

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Insurer	Description	Amount	Expiration Date
Smith Insurance	Worker's compensation: Bodily injury by accident	500,000	Apr 1, 2005
	Bodily injury by disease	500,000	Apr 1, 2005
	Policy limit	500,000	Apr 1, 2005
Smith Insurance	Umbrella: Retained limit	10,000	Apr 1, 2005
	Occurrence limit	3,000,000	Apr 1, 2005
	Aggregate limit	3,000,000	Apr 1, 2005
Smith Insurance	Linebacker: Each loss	1,000,000	Apr 1, 2005
	Aggregate	1,000,000	Apr 1, 2005
Jones Insurance Company	Airport liability: Combined single:		
	Each occurrence	1,000,000	Jul 1, 2004
	Malpractice aggregate	1,000,000	Jul 1, 2004
	Fire damage	50,000	Jul 1, 2004
	Medical expense	1,000	Jul 1, 2004
	Hangarkeepers-per aircraft	200,000	Jul 1, 2004
	Hangarkeepers-per occurrence	200,000	Jul 1, 2004
	Personal injury and advertising injury aggregate limit	1,000,000	Jul 1, 2004
Jones Insurance Company	Airport public officials and employees' liability	1,000,000	Jul 1, 2004
Smith Insurance	Public employees blanket bond	100,000	Continuous until canceled

Statistical Information:

Description	Amount
Customers served at June 30, 2004 - water	2,300
Customers served at June 30, 2004 - sewer	2,250

Water rates in effect at June 30, 2004:

Per month:

First 1,000 gallons – \$2.85 minimum charge

1,000 to 20,000 gallons – \$2.15 per 1,000 gallons

Over 20,000 gallons – \$1.75 per 1,000 gallons

Sewer rates in effect at June 30, 2004:

Minimum charge per month of \$5.00 plus \$3.10 per 1,000 gallons of water used

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Sample GAAP City

Staff

This audit was performed by:

Jerome Warning, CPA, Manager  
Janice Brinkley, CPA, Senior Auditor  
Stanley Hood, CPA, Assistant Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State